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THE MORNING BRIEF

By JOSEPH SCHUMAN



New China Syndrome: Oil and U.S. Wariness

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The unsolicited bid by China's Cnooc to woo Unocal from nominal merger partner Chevron is the best illustration yet of China's ascendant role as an economic power, and it is only fitting that such a bold affirmation has everything to do with oil.


State-controlled Cnooc offered \$18.5 billion for the independent California petroleum company, signaling what the New York

Times notes is the [first big takeover battle by a Chinese company for an American corporation](#)¹. It also demonstrates the increasing influence on Asia of Wall Street's bare-knuckled takeover tactics, topping the \$16.4 billion purchase price Unocal agreed on with Chevron and potentially inciting a costly bidding war, the Times says. But the corporate-finance aspects of the deal could pale in comparison to its geopolitical facets. Historically high petroleum prices -- the reason oil companies are so hot -- are due in no small part to the rapid growth of energy consumption by the Chinese economy. That hunger for fuel has been driving Chinese foreign policy, moving China closer to the likes of Sudan, Iran and Venezuela, where it has signed lucrative contracts with regimes that have few fans in Washington. And as the Los Angeles Times notes, the Unocal bid [sets the stage for an intense American political debate](#)² over the future of U.S. energy, security and trade policies.

The U.S. economy is heavily dependent on foreign oil, frequently cited as one of the two biggest factors in global petroleum consumption along with Chinese growth. On other trans-Pacific economic fronts, Chinese textile exports and what many in Washington view as unfair monetary policy are already the source of anti-Beijing rhetoric and potential lawmaking. The Senate Finance Committee today holds a hearing on U.S.-China relations, including testimony from Treasury Secretary John Snow and Federal Reserve Chairman Alan Greenspan, and the Unocal fight is sure to be discussed by some in protectionist tones. Anticipating the reaction to his company's move, Cnooc Chairman and Chief Executive Fu Chengyu -- who earned a master's degree in petroleum engineering from USC and once worked for Phillips Petroleum -- tells the Los Angeles Times that if people "have a better understanding" of Cnooc, "I think there will be less concern both politically and maybe economically." The deal, he argues, "is good for America," adding that Cnooc would keep most of Unocal's 6,600 workers and sell its U.S.-produced oil and gas within the U.S.

For Cnooc itself, and corporate China, the offer is milestone, but one that isn't all that much of an advance from recent moves. An acquisition of Unocal [would increase Cnooc's sway and power in](#)

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Asia³, The Wall Street Journal notes, since nearly half of Unocal's reserves consists of natural gas in Asia. A combined entity would have 85% of its reserves in Asia, according to Cnooc's bid proposal. And the offer is also the latest sign that [China's companies are no longer content to operate in the domestic arena](#)⁴ and be considered as attractive investments for foreign multinationals, the Financial Times notes. Headlines in recent months and years have portrayed an [aggressive Chinese foray overseas](#)⁵, the Journal observes, with Lenovo Group purchasing International Business Machines Corp.'s personal-computer unit and Qingdao Haier going after venerable appliance maker Maytag.

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Senate Moves to Federalize LNG Siting

Potentially controversial moves on U.S. energy policy were on display elsewhere yesterday. The Senate voted to give federal regulators authority over the location of liquefied natural gas terminals, despite objections from governors that states should have an equal say in deciding where such projects are built, the Los Angeles Times reports. While Republican and Democratic officials from city halls and Capitol Hill have expressed concern that the terminals could become targets of terrorist attacks or pose other safety risks, President [Bush has pushed to put Washington in charge of deciding where terminals are built](#)⁶. He argues a lengthy approval process could delay the building of facilities critical to providing the natural gas needed to fuel the nation's economy, the Los Angeles Times notes. And Mr. Bush made the [first visit by a sitting U.S. president to a nuclear plant since the accident at Three Mile Island](#)⁷ in 1979, declaring, "It is time for this country to start building nuclear power plants again," the Financial Times reports.

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The Abramoff Documents

A lobbyist close to House Majority Leader Tom DeLay, Jack Abramoff, used money from a Mississippi tribal client to set up bogus Christian antigambling groups and to fund pet projects including buying gear for a "sniper school" in the Israeli-occupied West Bank, a Senate investigation has shown. The revelations came in emails and testimony made public yesterday by the Senate Indian Affairs Committee at its third hearing on the [activities of Mr. Abramoff and Michael Scanlon, a former spokesman for Mr. DeLay](#)⁸, the Washington Post reports. The documents and related testimony also showed Mr. Abramoff sent millions of dollars from the India tribes through nonprofit groups to benefit himself and finance political operations of two prominent White House allies, The Wall Street Journal says. Emails released by the panel show [close financial ties between Mr. Abramoff's lobbying operation and former Christian Coalition executive director Ralph Reed and antitax advocate Grover Norquist](#)⁹. The Senate panel is investigating [whether he defrauded Indian tribes while charging them more than \\$80 million](#)¹⁰ in fees and expenses, the New York Times reports.

Mr. Abramoff's style, in this and other operations, was illustrated by a missive excerpted by The New Republic. "I hate to ask your help with something so silly," Mr. Abramoff wrote to a friend, a Seattle-based rabbi. "I have been nominated for membership in the Cosmos Club, which is a very distinguished club in Washington, DC, comprised of Nobel Prize winners, etc. Problem for me is that most prospective members have received awards and I have received none. I was wondering if you thought it possible that I could put that I have received an award from Toward Tradition with a sufficiently academic title, perhaps something like Scholar of Talmudic Studies? ... Indeed, it would be even better if it were possible that I received these in years past, if

you know what I mean. Anyway, [I think you see what I am trying to finagle](#)¹¹ here!"

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Senate Prepares Consumer-Data Protections

The Senate Judiciary Committee is preparing legislation that would significantly tighten the rules governing corporate protection of consumer data and set stiff penalties -- including jail time -- for violations, American Banker reports. The bill is backed by both the committee's chairman, Republican Arlen Specter, and its ranking Democrat, Patrick Leahy. Congressional aides and other people tell American Banker that the bill is expected to address identity theft, data broker security standards, customer notification, and corporate use of Social Security numbers. The legislation would preempt state laws that are inconsistent with those provisions but allow states to enact their own standards in other areas of data security. People familiar with a version of the bill under discussion yesterday afternoon said it [would limit corporate use of Social Security numbers](#)¹² by prohibiting companies from requiring consumers to provide their number and prohibiting firms from denying goods and services to consumers who decline to provide it.

* * *

Retailers Fight Banks, Cards on Fees

The largest U.S. banks face a growing legal and regulatory threat to one of their richest sources of profit: the more than \$20 billion in transaction fees they charge merchants each year on every credit-card purchase made through MasterCard International or Visa USA, The Wall Street Journal reports. More merchants are challenging these fees, [alleging that banks -- through Visa and MasterCard -- are illegally fixing prices](#)¹³. Some recently have won large, undisclosed settlements with Visa and MasterCard that slash the charges, known as interchange fees. Wal-Mart Stores won concessions valued at more than \$1 billion, while others, including Best Buy, Toys "R" Us, Home Depot and CVS, are negotiating or have already won fee cuts, lawyers close to these cases tell the Journal. Other merchants are preparing lawsuits against Visa, MasterCard and banks, suits that some analysts say could prove more costly than the \$3 billion settlement merchants won in a court fight last year over debit-card fees.

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Signs Point to Rate Cuts in Europe

Expectations for lower borrowing costs in Britain and the euro zone mounted, as further evidence emerged that interest-rate cuts were firmly [back on central bank agendas](#)¹⁴, the Financial Times reports. The minutes of the Bank of England's June monetary policy committee meeting revealed that two of nine members voted to cut rates by a quarter point to 4.5% -- the first time any member of the committee had voted to cut U.K. rates since July 2003. The minutes were released the day after the Riksbank, Sweden's central bank, surprised investors with an aggressive half-point rate cut to 1.5%. And the change in sentiment matches a similar shift in the euro zone, where the European Central Bank has softened its resistance to lowering rates since the beginning of the month in the face of a slowing economy.

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Scrushy Deliberations Start Over

A judge scuttled a month of unproductive deliberations in the fraud trial of fired HealthSouth Chief Executive Richard Scrushy, as she [dismissed a sick juror and ordered the panel to begin](#)

[work anew with an alternate](#)¹⁵. U.S. District Judge Karon Bowdre also asked the reconstituted jury -- whose deliberations have gone on for weeks amid what has been a light schedule -- to extend their workday in hopes of reaching a verdict in a trial that began in January, the Associated Press says.

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Also of Note...

USA Today: The four biggest U.S. airlines -- American, United, Delta and Northwest -- raised most airfares, [citing record-high fuel prices](#)¹⁶, with United increasing fares 3% across the board, Northwest raising domestic fares 3%, and American and Delta raising fares \$5 each way.

The Deal.com: Ameritrade Holding agreed to buy TD Waterhouse [in order to solidify its No. 3 position in the U.S. discount-brokerage market](#)¹⁷, putting pressure on E*Trade, which had made its own bid last month.

New York Post: The Securities and Exchange Commission is [readying charges against investment giant Bear Stearns](#)¹⁸, the latest target in the two-year probe into shady trading practices in the mutual-fund industry.

Los Angeles Times: With conflicts in Iraq and Afghanistan making it increasingly hard for the U.S. military to recruit, the Pentagon has hired an outside marketing firm to help [compile an extensive database about teenagers and college students](#)¹⁹ that the military could use to target potential enlistees.

New York Times: For the first time in decades, doctors have begun making [major changes in the treatment of lung cancer](#)²⁰, based on research proving that chemotherapy can significantly lengthen life for many patients for whom it was previously thought to be useless.

Washington Post: A military study of the religious climate at the U.S. Air Force Academy found several examples of [religious intolerance, insensitivity and inappropriate proselytizing](#)²¹ on the part of officers and cadets but concluded the school is not overtly discriminatory and has made improvements.

Variety: Hoping to reduce the number of Oscars it hands out every year, the Academy of Motion Picture Arts & Sciences has [tightened restrictions on credits for producers and songwriters](#)²² and rejected a proposal for a stunt-coordinator Oscar despite recent lobbying attempts by stunt performers.

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Quote of the Day

"We are living through an era of profound upheaval and change. Look at our children and the technology they use and the jobs market they face. The world is unrecognisable from that we experienced as students 20, 30 years ago. When such change occurs, [moderate people must give leadership. If they don't, the extremes gain traction](#)²³ on the political process. It happens within a nation. It is happening in Europe now," British Prime Minister Tony Blair said this morning, in

addressing the European Parliament at the opening of Britain's six-month presidency of the European Union.

Write to Joseph Schuman at joseph.schuman@wsj.com²⁴

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